

Albion Public Schools

Financial Report with Supplemental Information June 30, 2004

Albion Public Schools

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Independent Auditor's Report

To the Board of Education
Albion Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Albion Public Schools as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Albion Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Albion Public Schools as of June 30, 2004, and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.



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To the Board of Education
Albion Public Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Albion Public Schools' basic financial statements. The accompanying required supplemental information and other supplemental information, as identified in the table of contents, are not a required part of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board; the other supplemental information is presented for the purpose of additional analysis. The required supplemental information and the other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated August 6, 2004 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

August 6, 2004

Albion Public Schools

Management's Discussion and Analysis

This section of the Albion Public Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2004. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Albion Public Schools financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund and Capital Projects Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion & Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information) Budgetary Information for Major Funds

Other Supplemental Information

Reporting the School District as a Whole - District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Albion Public Schools

Management's Discussion and Analysis (Continued)

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, maintenance and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money (like bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

Albion Public Schools

Management's Discussion and Analysis (Continued)

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2004.

Table I

	2004	2003
	Governmental Activities	
	(in millions)	
Assets		
Current and other assets	\$ 6.7	\$ 6.5
Capital assets	9.7	10.0
Total assets	16.4	16.5
Liabilities		
Current liabilities	2.3	2.4
Long-term liabilities	7.7	8.1
Total liabilities	10.0	10.5
Net Assets		
Invested in property and equipment - Net of related debt	1.6	1.5
Restricted	0.2	0.2
Unrestricted	4.6	4.3
Total net assets	\$ 6.4	\$ 6.0

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$6.4 million at June 30, 2004. Total capital assets, net of related debt, totaling \$1.6 million, compares the original cost, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets, in the amount of \$0.2 million, are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$4.6 million, was unrestricted.

Albion Public Schools

Management's Discussion and Analysis (Continued)

The \$4.6 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets for fiscal year 2004.

TABLE 2

	2004	2003
	Governmental Activities	
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 0.1	\$ 0.2
Operating grants	5.0	4.4
General revenue:		
Property taxes	2.1	1.9
State foundation allowance	9.9	10.6
Other	0.3	0.2
Total revenue	17.4	17.3
Functions/Program Expenses		
Instruction and tuition	9.4	9.1
Support services	5.7	5.6
Food services	0.6	0.7
Athletics	0.3	0.4
Interest on long-term debt	0.4	0.5
Depreciation (unallocated)	0.6	0.7
Total expenses	17.0	17.0
Increase in Net Assets	\$ 0.4	\$ 0.3

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$17.0 million. Certain activities were partially funded from those who benefited from the programs' \$0.1 million or by other governments and organizations that subsidized certain programs with grants and contributions of \$5.0 million. We paid for the remaining "public benefit" portion of our governmental activities with \$2.1 million in taxes, \$9.9 million in state foundation allowance, and with our other revenues, i.e., interest and general entitlements.

Albion Public Schools

Management's Discussion and Analysis (Continued)

The School District's net assets remained stable with a modest increase of \$0.4 million.

As discussed above, the net cost shows the financial burden that was placed on the state and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$4.8 million, which is an increase of \$0.3 million from last year. The primary reasons for the increase are as follows:

In the General Fund, our principal operating fund, the fund balance increased \$0.3 million to \$2.7 million. The change is mainly due to:

- A small decrease in teaching staff and the reduction of capital outlay purchases

General Fund balance is available to fund costs related to allowable school operating purposes.

Our Special Revenue Funds showed a net decrease of approximately \$76,000. This was due to renovations made at Washington Gardner School due to our re-configuration plan. Washington Gardner School was converted to a 3rd grade through 8th grade building instead of 6th grade through 8th grades.

Combined, the Debt Service Funds showed a fund balance increase of approximately \$26,500. Millage rates were reduced in order to adjust the Debt Service Funds fund balances. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Durant debt obligations are funded by annual state appropriation, and no fund balance exists at year end. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

Capital Projects Funds will be expended in the near future for such projects as boiler replacements, track and tennis court resurfacing, tuck-pointing and roof replacements. The Board is in the process of formulating a five-year facility improvement plan.

Albion Public Schools

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

There were significant revisions made to the 2003-2004 General Fund original budget. Budgeted revenues were increased \$.9 million due to an unexpected change in certain categorical revenue from the State and an unanticipated increase in foundation allowance payments due to actual student enrollment more than original estimates.

Budgeted expenditures were also increased \$.3 million to account for changes in salaries and purchased professional service resulting from the School District's revised operating plan due to fluctuations in revenue, and carryover funds. The amount of transfers to other funds established in the amended budget was \$.7 million and represents support provided by the General Fund to other functions.

There were no significant variances between the final budget and actual amounts.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2004, the School District had \$9.7 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture and equipment. This amount represents a net decrease (including additions and depreciation) of approximately \$.3 million, or 3.0 percent, from last year.

	2004	2003
Land	\$ 20,000	\$ 20,000
Buildings and building improvements	15,955,540	15,874,540
Buses and other vehicles	915,045	792,295
Furniture and equipment	1,953,096	1,821,489
Total capital assets	<u>\$ 18,843,681</u>	<u>\$ 18,508,324</u>

Albion Public Schools

Management's Discussion and Analysis (Continued)

Several major projects are planned for the 2004-05 fiscal year. We plan to purchase one new bus, tuck point a section of Washington Gardner building, replace some windows at Washington Gardner building, re-surface the High School track and upgrade the bleachers at the High School Sports Complex. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$8.1 million in bonds outstanding versus \$8.4 million in the previous year - a change of 3.6 percent. Those bonds consisted of the following:

	2004	2003
General Obligation Bonds	\$ 8,068,113	\$ 8,418,113

The School District's general obligation bond rating is A+. The state limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "Qualified Debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit.

Albion Public Schools

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2005 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count calculation for the 2005 fiscal year is under discussion at the State level presently. In the past it has been 20 percent and 80 percent of the February 2004 and September 2003 student counts, respectively. The 2004-05 budget was adopted in June 2004, based on an estimate of students that will be enrolled in September 2004. Approximately 80 percent of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, District funding is heavily dependent on the state's ability to fund local school operations. Based on early enrollment data at the start of the 2004-05 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2004-05 budget. Once the final student count and related per pupil funding are validated, State law requires the School District to amend the budget if actual District resources are not sufficient to fund original appropriations.

At the end of the 2002-03 school year, the School District was reconfigured resulting in the closing of two buildings and three schools. Beginning with the 2003-04 school year, Harrington Elementary School housed Pre-K through 2nd Grade, Washington Gardner Schools housed grades 3-5 elementary and grades 6-8 middle schools. The high school remained grades 9-12.

The District has experienced a decline in pupil enrollment since 1969. Enrollment has declined by approximately 100 students in each of the past three school years. While a portion of the decline is attributed to schools of choice, the majority of the reduction is due to the declining economic environment and loss of jobs in the Albion area.

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The state periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are not sufficient to fund the appropriation at the same level as in the past. The legislature must now enact a new School Aid appropriation. Unless some new revenue can be found, the new appropriation could show a reduction in total State Aid.

The School District currently has all labor contracts in place for fiscal year 2004-05.

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Statement of Net Assets June 30, 2004

	Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 3,579,421
Receivables, net (Note 4)	3,017,797
Inventories	66,482
Prepaid costs	24,781
Capital assets, net (Note 5)	<u>9,688,746</u>
Total assets	16,377,227
Liabilities	
Accounts payable	57,423
Accrued payroll and other liabilities	1,284,291
Due to other governments	31,196
Deferred revenue	565,075
Long-term liabilities: (Note 7)	
Due within one year	400,000
Due in more than one year	<u>7,668,113</u>
Total liabilities	<u>10,006,098</u>
Net Assets	
Investment in capital assets, net of related debt	1,538,469
Restricted:	
Debt service	232,180
Unrestricted	<u>4,600,480</u>
Total net assets	<u><u>\$ 6,371,129</u></u>

Albion Public Schools

Statement of Activities Year Ended June 30, 2004

	Program Revenues			Governmental
				Activities
				Net (Expense)
				Revenue and
				Changes in
	Expenses	Charges for	Operating Grants/	Net Assets
		Services	Contributions	
Functions/Programs				
Primary government - Governmental activities:				
Instruction	\$ 9,281,814	\$ -	\$ 4,444,456	\$ (4,837,358)
Support services	5,644,818	-	21,725	(5,623,093)
Tuition	152,378	-	53,794	(98,584)
Food services	632,633	126,123	506,719	209
Athletics	302,782	21,616	-	(281,166)
Community services	3,353	-	-	(3,353)
Interest on long-term debt	433,816	-	-	(433,816)
Depreciation (unallocated)	638,352	-	-	(638,352)
Total governmental activities	\$ 17,089,946	\$ 147,739	\$ 5,026,694	(11,915,513)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				1,342,067
Property taxes, levied for debt services				757,000
State aid not restricted to specific purposes				9,940,485
Interest and investment earnings				32,856
Other				235,985
Total general revenues				12,308,393
Change in Net Assets				392,880
Net Assets - Beginning of year				5,978,249
Net Assets - End of year				\$ 6,371,129

Albion Public Schools

Governmental Funds Balance Sheet June 30, 2004

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments (Note 3)	\$ 1,657,447	\$ 1,496,117	\$ 425,857	\$ 3,579,421
Receivables, net	2,978,697	1,123	37,977	3,017,797
Due from other funds	228,825	252,211	178,272	659,308
Inventories	63,561	-	2,921	66,482
Prepaid costs	24,781	-	-	24,781
Total assets	<u>\$ 4,953,311</u>	<u>\$ 1,749,451</u>	<u>\$ 645,027</u>	<u>\$ 7,347,789</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 57,423	\$ -	\$ -	\$ 57,423
Accrued payroll and other liabilities	1,202,127	-	-	1,202,127
Due to other funds	430,483	-	228,825	659,308
Due to other governmental units	26,738	-	4,458	31,196
Deferred revenue	565,075	-	-	565,075
Total liabilities	2,281,846	-	233,283	2,515,129
Fund Balances				
Reserved:				
Inventories	63,561	-	2,921	66,482
Prepays	24,781	-	-	24,781
Debt Service Funds	-	-	232,180	232,180
Unreserved:				
Designated for unemployment	100,000	-	-	100,000
Designated for asbestos removal	100,000	-	-	100,000
Designated for technology	300,000	-	-	300,000
Designated for energy conservation-construction	100,000	-	-	100,000
Undesignated, reported in:				
General Fund	1,983,123	-	-	1,983,123
Special Revenue Funds	-	-	176,643	176,643
Capital Projects Funds	-	1,749,451	-	1,749,451
Total fund balances	<u>2,671,465</u>	<u>1,749,451</u>	<u>411,744</u>	<u>4,832,660</u>
Total liabilities and fund balances	<u>\$ 4,953,311</u>	<u>\$ 1,749,451</u>	<u>\$ 645,027</u>	<u>\$ 7,347,789</u>

Albion Public Schools

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets Year Ended June 30, 2004

Fund Balance - Total Governmental Funds		\$	4,832,660
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds:			
The cost of the capital assets is	18,843,681		
Accumulated depreciation is	<u>(9,154,935)</u>	9,688,746	
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:			
Bonds payable included premium/discount		(8,068,113)	
Accrued interest payable is not included as a liability in governmental funds		<u>(82,164)</u>	
Net Assets - Governmental Activities		<u>\$</u>	<u>6,371,129</u>

Albion Public Schools

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Local sources	\$ 1,546,978	\$ 17,922	\$ 950,747	\$ 2,515,647
State sources	11,630,942	-	44,220	11,675,162
Federal sources	1,957,189	-	462,499	2,419,688
Interdistrict sources	872,329	-	-	872,329
Total revenue	16,007,438	17,922	1,457,466	17,482,826
Expenditures				
Current:				
Instruction	9,128,464	-	-	9,128,464
Support services	5,554,508	-	-	5,554,508
Community services	3,353	-	-	3,353
Tuition	152,378	-	-	152,378
Food service	-	-	632,633	632,633
Athletics	-	-	302,782	302,782
Maintenance	-	-	89,960	89,960
Debt service:				
Principal	762	-	350,000	350,762
Interest	-	-	426,113	426,113
Other	-	-	350	350
Capital outlay	167,369	84,861	236,477	488,707
Total expenditures	15,006,834	84,861	2,038,315	17,130,010
Excess (Deficiency) of Revenue Over Expenditures	1,000,604	(66,939)	(580,849)	352,816
Other Financing Sources (Uses)				
Transfers in	-	150,000	531,166	681,166
Transfers out	(681,166)	-	-	(681,166)
Total other financing sources (uses)	(681,166)	150,000	531,166	-
Excess (Deficiency) of Revenue and Other Financing Sources over Expenditures and Other Uses	319,438	83,061	(49,683)	352,816
Fund Balances - Beginning of year	2,352,027	1,666,390	461,427	4,479,844
Fund Balances - End of year	<u>\$ 2,671,465</u>	<u>\$ 1,749,451</u>	<u>\$ 411,744</u>	<u>\$ 4,832,660</u>

Albion Public Schools

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$	352,816
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Depreciation expense	(638,352)	
Capitalized capital outlay	<u>335,357</u>	(302,995)
Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		(7,703)
Repayment of bond principal and other obligations is an expenditure in the governmental funds but not in the statement of activities (where it reduces long-term debt)		<u>350,762</u>
Change in Net Assets of Governmental Activities	\$	<u>392,880</u>

Albion Public Schools

Fiduciary Fund Statement of Fiduciary Assets and Liabilities June 30, 2004

	Student Activities Agency Fund
	<hr/>
Assets	
Cash	\$ 153,269
Investments	<hr/> 9,760
Total assets	<u>\$ 163,029</u>
Liabilities	
Due to student groups	150,043
Accounts payable	<hr/> 12,986
Total liabilities	<u>\$ 163,029</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of Albion Public Schools (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Financial Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the School District.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

Note I - Summary of Significant Accounting Policies (Continued)

The School District reports the following major governmental funds:

General Fund - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

Capital Projects Fund - The Capital Projects Fund is used to record other revenue and the disbursement of monies specifically designated for acquiring equipment and for remodeling. The fund operates until the purpose for which it was created is accomplished.

Additionally, the School District reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District maintains three governmental Special Revenue Funds, which account for the District's food service, athletic and maintenance activities. Any operating deficit generated by these activities is the responsibility of the General Fund.

Debt Service Funds - The School District maintains two governmental Debt Service Funds. The 1995 Debt Service Fund is used to record tax, interest, other revenue for payment of interest, principal, and other expenditures on the 1995 bond issue. The Durant Bond Issue had no activity in the year ended June 30, 2004, and no assets, liabilities or fund balance at June 30, 2004.

Student Activities Agency Fund - The School District presently maintains an Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Note I - Summary of Significant Accounting Policies (Continued)

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes are levied and become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds, including United States Department of Agriculture Commodities inventory, are recorded as expenditures when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both district-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extended asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Long-term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Note 1 - Summary of Significant Accounting Policies (Continued)

The face amount of debt issued is reported as other financing sources.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data - Comparative data is not included in the School District's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General, Special Revenue, Capital Projects, and Debt Service Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The School District increased/decreased budgeted amounts during the year in response to State Aid cuts and normal fluctuations between expenditure groups.

Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the School District incurred expenditures in the General Fund, which were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>
General Fund - Compensatory Education	\$ 793,396	\$ 885,023

Note 3 - Deposits and Investments

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that mature not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

At year end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$ 2,065,136	\$ 153,269	\$ 2,218,405
Investments	<u>1,514,285</u>	<u>9,760</u>	<u>1,524,045</u>
Total	<u>\$ 3,579,421</u>	<u>\$ 163,029</u>	<u>\$ 3,742,450</u>

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 2,218,405
Investments in securities, mutual funds, and similar vehicles	<u>1,524,045</u>
Total	<u>\$ 3,742,450</u>

Note 3 - Deposits and Investments (Continued)Bank Deposits

The bank deposits of the School District were reflected in the accounts of the financial institution at \$2,249,901, of which \$150,736 is covered by federal depository insurance.

Investments

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, or securities held by the School District or its agent in the School District's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the School District's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the School District's name.

At year end, the School District's investment balances were categorized as follows:

	Category			Carrying Amount
	1	2	3	
Commercial paper	\$ -	\$ 1,017,631	\$ -	\$ 1,017,631
Investments not subject to categorization:				
Interlocal agreement investment pools (i.e., MILAF)				506,414
Total investments				\$ 1,524,045

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form.

The interlocal agreement investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. Investments under the interlocal agreement (MILAF) are regulated by the Urban Cooperation Act. The fair value of the position in the interlocal agreement pools is the same as the value of the pool shares.

Note 4 - Receivables

Receivables as of year end for the School District's individual major funds and the nonmajor funds, in the aggregate, are as follows:

	General Fund	Capital Projects Fund	Nonmajor and Other Funds	Total
Receivables:				
Accounts	\$ 962,941	\$ 1,123	\$ 37,977	\$ 1,002,041
Intergovernmental	<u>2,015,756</u>	<u>-</u>	<u>-</u>	<u>2,015,756</u>
Net receivables	<u>\$ 2,978,697</u>	<u>\$ 1,123</u>	<u>\$ 37,977</u>	<u>\$ 3,017,797</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Grant and categorical aid payment received prior to meeting all eligibility requirements	<u>\$ -</u>	<u>\$ 565,075</u>

Albion Public Schools

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2003	Additions	Balance June 30, 2004
Capital assets not being depreciated:			
Land	\$ 20,000	\$ -	\$ 20,000
Capital assets being depreciated:			
Building and building improvements	15,874,540	81,000	15,955,540
Buses and other vehicles	792,295	122,750	915,045
Furniture and equipment	1,821,489	131,607	1,953,096
Subtotal	18,488,324	335,357	18,823,681
Accumulated depreciation:			
Building and building improvements	6,437,972	456,372	6,894,344
Buses and other vehicles	721,246	25,547	746,793
Furniture and equipment	1,357,365	156,433	1,513,798
Subtotal	8,516,583	638,352	9,154,935
Net capital assets being depreciated	9,971,741	(302,995)	9,668,746
Net governmental capital assets	<u>\$ 9,991,741</u>	<u>\$ (302,995)</u>	<u>\$ 9,688,746</u>

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From		
	General	Nonmajor Governmental Funds	Total
General Fund	\$ -	\$ 228,825	\$ 228,825
Capital Projects Fund	252,211	-	252,211
Nonmajor governmental funds	178,272	-	178,272
Total	<u>\$ 430,483</u>	<u>\$ 228,825</u>	<u>\$ 659,308</u>

Interfund balances represent routine and temporary cash flow assistance from the General Fund.

Interfund Transfers

		Transfers Out: General Fund
Transfers in:		
Capital Projects Fund	\$ 150,000	
Other governmental funds	531,166	
Total	<u>\$ 681,166</u>	

Transfers provide funding for capital projects and subsidize operations in the Athletics Fund and Maintenance Fund.

Albion Public Schools

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Reductions	Ending Balance	Due Within One Year
Governmental Activities				
Bonds	\$ 8,418,113	\$ 350,000	\$ 8,068,113	\$ 400,000
Other obligations	<u>762</u>	<u>762</u>	<u>\$ -</u>	<u>-</u>
Total governmental activities	<u>\$ 8,418,875</u>	<u>\$ 350,762</u>	<u>\$ 8,068,113</u>	<u>\$ 400,000</u>

Annual debt service requirements to maturity for the above governmental bond and note obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2005	\$ 400,000	\$ 402,313	\$ 802,313
2006	528,184	416,763	944,947
2007	467,308	365,413	832,721
2008	468,137	341,506	809,643
2009	469,000	317,600	786,600
2010-2014	2,410,484	1,223,756	3,634,240
2015-2019	2,375,000	608,593	2,983,593
2020-2021	<u>950,000</u>	<u>73,031</u>	<u>1,023,031</u>
Total	<u>\$ 8,068,113</u>	<u>\$ 3,748,975</u>	<u>\$ 11,817,088</u>

Note 7 - Long-term Debt (Continued)

Governmental Activities

General obligation bonds consist of the following:

Issue dated November 1, 1995, due in annual installments of \$400,000 to \$475,000, plus interest at rates from 5.125 percent to 6.8 percent through May 1, 2021	\$ 7,850,000
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Durant Non-Plaintiff Bond issue of \$341,406 School Improvement Bond, Series 1998, due in annual installments of \$17,308 to \$78,184 through May 15, 2013, plus interest at 4.76%	<u>218,113</u>
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Total bonded debt	<u>\$ 8,068,113</u>
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Durant Non-Plaintiff Bond - Included in Governmental Activities General Obligation Bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) associated with this bond are funded by the State of Michigan via specifically appropriated State Aid and will not require any School District debt levy or utilization of any other School District financial resources.

Note 8 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District participates in the Middle Cities Risk Pools for these claims.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at P.O. Box 30171, Lansing, MI 48909-7671.

Funding Policy - Employer contributions to the System result from implementing the effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 12.99 percent for the period from July 1, 2003 through June 30, 2004 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPERS plan for the years ended June 30, 2004, 2003, and 2002 were \$1,407,090, \$1,214,710, and \$1,548,217, respectively.

Postemployment Benefits - Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPERS plan discussed above.

Required Supplemental Information

Albion Public Schools

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 1,415,232	\$ 1,616,877	\$ 1,546,978	\$ (69,899)
State sources	11,160,275	11,692,749	11,630,942	(61,807)
Federal sources	1,946,551	1,931,309	1,957,189	25,880
Interdistrict sources	703,355	892,145	872,329	(19,816)
Total revenue	15,225,413	16,133,080	16,007,438	(125,642)
Expenditures				
Current:				
Instruction:				
Basic programs	6,802,180	6,640,100	6,549,892	(90,208)
Added needs - At risk	90,448	247,140	238,918	(8,222)
Special education	1,154,933	1,320,581	1,291,576	(29,005)
Compensatory education	827,809	793,396	885,023	91,627
Adult and community education	163,533	167,088	163,055	(4,033)
Support services:				
Pupil	751,850	889,000	809,112	(79,888)
Instructional staff	729,243	827,842	736,266	(91,576)
General administration	330,445	328,475	314,775	(13,700)
School administration	1,108,569	1,181,646	1,145,049	(36,597)
Business:				
Fiscal services	326,815	293,757	269,247	(24,510)
Operation and maintenance of plant	1,646,335	1,593,653	1,592,154	(1,499)
Pupil transportation	681,346	724,999	732,158	7,159
Other support services	65,349	57,342	55,389	(1,953)
Community services	49,321	9,076	3,353	(5,723)
Tuition	152,378	152,378	152,378	-
Capital outlay:				
Instruction	85,110	67,375	53,977	(13,398)
Support services	28,870	28,870	14,512	(14,358)
Total expenditures	14,994,534	15,322,718	15,006,834	(315,884)
Other Financing Uses				
Operating transfers	567,676	740,055	681,166	(58,889)
Net Change in Fund Balance	(336,797)	70,307	319,438	249,131
Fund Balance - July 1, 2003	2,137,887	2,352,027	2,352,027	-
Fund Balance - June 30, 2004	<u>\$ 1,801,090</u>	<u>\$ 2,422,334</u>	<u>\$ 2,671,465</u>	<u>\$ 249,131</u>

Other Supplemental Information

Albion Public Schools

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2004

	Special Revenue Funds			Debt Service Funds		
	Food Services	Athletics	Maintenance	Durant Bond Issue	1995 Bond Issue	Total
Assets						
Cash and investments	\$ 7,240	\$ -	\$ -	\$ -	\$ 418,617	\$ 425,857
Accounts receivable	37,977	-	-	-	-	37,977
Due from other funds	-	-	178,272	-	-	178,272
Inventories	2,921	-	-	-	-	2,921
Total assets	<u>\$ 48,138</u>	<u>\$ -</u>	<u>\$ 178,272</u>	<u>\$ -</u>	<u>\$ 418,617</u>	<u>\$ 645,027</u>
Liabilities and Fund Balances						
Liabilities						
Due to other funds	\$ 46,846	\$ -	\$ -	\$ -	\$ 181,979	\$ 228,825
Due to other governmental units	-	-	-	-	4,458	4,458
Total liabilities	46,846	-	-	-	186,437	233,283
Fund Balances						
Reserved:						
Inventories	2,921	-	-	-	-	2,921
Debt Service Funds	-	-	-	-	232,180	232,180
Unreserved:						
Undesignated, reported in:						
Special Revenue Funds	(1,629)	-	178,272	-	-	176,643
Total fund balances	<u>1,292</u>	<u>-</u>	<u>178,272</u>	<u>-</u>	<u>232,180</u>	<u>411,744</u>
Total liabilities and fund balances	<u>\$ 48,138</u>	<u>\$ -</u>	<u>\$ 178,272</u>	<u>\$ -</u>	<u>\$ 418,617</u>	<u>\$ 645,027</u>

Albion Public Schools

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2004

	Special Revenue Funds			Debt Service Funds		Total
	Food Services	Athletics	Maintenance	Durant Bond Issue	1995 Bond Issue	
Revenue						
Local	\$ 126,123	\$ 21,616	\$ -	\$ -	\$ 803,008	\$ 950,747
State	44,220	-	-	-	-	44,220
Federal	462,499	-	-	-	-	462,499
Total revenue	632,842	21,616	-	-	803,008	1,457,466
Expenditures						
Current:						
Food services	632,633	-	-	-	-	632,633
Athletics	-	302,782	-	-	-	302,782
Maintenance	-	-	326,437	-	-	326,437
Debt service:						
Principal	-	-	-	-	350,000	350,000
Interest	-	-	-	-	426,113	426,113
Other	-	-	-	-	350	350
Total expenditures	632,633	302,782	326,437	-	776,463	2,038,315
Excess (Deficiency) of Revenue Over Expenditures	209	(281,166)	(326,437)	-	26,545	(580,849)
Other Financing Sources						
Transfers in	-	281,166	250,000	-	-	531,166
Net Change in Fund Balances	209	-	(76,437)	-	26,545	(49,683)
Fund Balances - Beginning of year	1,083	-	254,709	-	205,635	461,427
Fund Balances - End of year	<u>\$ 1,292</u>	<u>\$ -</u>	<u>\$ 178,272</u>	<u>\$ -</u>	<u>\$ 232,180</u>	<u>\$ 411,744</u>

Albion Public Schools

Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2004

June 30	Durant Principal	1995 Debt Principal
2005	\$ -	\$ 400,000
2006	78,184	450,000
2007	17,308	450,000
2008	18,137	450,000
2009	19,000	450,000
2010	19,904	450,000
2011	20,852	450,000
2012	21,844	475,000
2013	22,884	475,000
2014	-	475,000
2015	-	475,000
2016	-	475,000
2017	-	475,000
2018	-	475,000
2019	-	475,000
2020	-	475,000
2021	-	475,000
	\$ 218,113	\$ 7,850,000
Principal payments due	May 15	May 1
Interest payments due	May 15	May 1 and November 1
Interest rate	4.76%	5.125% to 6.8%
Original issue	\$ 341,406	\$ 9,605,000